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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 1, 1998

APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY                      CASE NO.    PUE980727

To revise its fuel factor  
pursuant to § 56-249.6 of  
the Code of Virginia

ORDER ESTABLISHING 1998-99 FUEL FACTOR

On October 19, 1998, Virginia Electric and Power Company ("Virginia Power" or "the Company") filed an application, testimony and exhibits with the Commission wherein the Company proposed to increase its zero-based fuel factor from 1.050¢/kWh to 1.152¢/kWh, for the period December 1, 1998, through November 30, 1999. By Order dated October 21, 1998, the Commission established a schedule for hearing and for the filing of testimonies and provided an opportunity for any interested person to participate in the hearing as a Protestant.

The Virginia Committee for Fair Utility Rates filed a Notice of Protest. By letter dated November 24, 1998, it changed its status from Protestant to Intervenor.

On November 18, 1998, Staff filed testimony wherein it recommended that the Commission approve the proposed total fuel factor of 1.152¢/kWh to become effective with usage on and after

December 1, 1998. The Staff further recommended that Virginia Power's future fuel factor filings include a detailed explanation of all modifications and refinements incorporated into the Company's energy margins forecast.

The Staff and Company stipulated all issues in this matter. The Virginia Committee for Fair Utility Rates did not oppose the proposed stipulation.

The hearing was held on November 30, 1998. The Company tendered its proof of service at the commencement of the hearing, and in accordance with the stipulation, its application, exhibits, and testimony were accepted into the record without cross-examination. The Staff's testimony, filed November 18, 1998, was also accepted into the record without cross-examination.

Upon consideration of the record in this case, the Commission is of the opinion that Virginia Power's proposed fuel factor of 1.152¢/kWh is appropriate based on projected fuel expenses. Approval of this factor, however, is not construed as approval of the Company's actual fuel expenses. For each calendar year, the Commission's Staff conducts an audit and investigation which addresses, among other things, the appropriateness and reasonableness of the Company's booked fuel expenses. Staff's results are documented in an Annual Report ("Staff's Annual Report"). A copy of Staff's Annual Report is

sent to the Company and to each party who participated in the Company's last fuel factor proceeding, all of whom are provided with an opportunity to comment and request a hearing on the report.

Based on Staff's Annual Report, and any comments or hearing thereon, the Commission enters an Order entitled "Final Audit for Twelve-Month Period Ending December 31, 19\_\_, Fuel Cost-Recovery Position," hereinafter referred to as "Final Audit Order." Notwithstanding any findings made by the Commission in an earlier order establishing the Company's fuel factor based on estimates of future expenses and unaudited booked expenses, the Final Audit Order will be the final determination of not only what are in fact allowable fuel expenses and credits, but also the Company's over or underrecovery position as of the end of the audit period. Should the Commission find in its Final Audit Order (1) that any component of the Company's actual fuel expenses or credits has been inappropriately included or excluded, or (2) that the Company has failed to make every reasonable effort to minimize fuel costs or has made decisions resulting in unreasonable fuel costs, the Company's recovery position will be adjusted. This adjustment will be reflected in the recovery position at the time of the Company's next fuel factor proceeding. We reiterate that no finding in this order

is final, as this matter is continued generally, pending Staff's audit of actual fuel expenses. Accordingly,

IT IS ORDERED THAT:

(1) A total fuel factor of 1.152¢/kWh be, and hereby is, approved and effective for usage on and after December 1, 1998.

(2) Additionally, in its next fuel factor application, the Company should include a detailed explanation of all modifications and refinements incorporated into the Company's energy margins forecasting methodology, as discussed in Staff witness Stavrou's testimony.

(3) This case shall be continued generally.